

**July 2002**

**WEST VIRGINIA INFORMATIONAL LETTER**

**NO. 142**

TO: All Insurance Companies Licensed to Do Business in the State of West Virginia, Insurance Trade Associations, Insurance Media Publications and All Other Interested Persons

RE: Credit Scoring for Personal Lines<sup>1</sup>

The purpose of this letter is to update personal lines insurers on the status of the West Virginia Insurance Commissioner's policy on the use of credit scoring. As you know, by Informational Letter 129A, this office surveyed those who were using credit reports or credit scoring in any underwriting capacity including, but not limited to, use as a factor in rating or tier placement. We have now reviewed the responses to become familiar with how credit is currently being used. We have also attended multiple presentations by carriers, industry trade groups and outside credit scoring model providers (hereafter, model providers). Finally, we have reviewed the proposed bills, statutes and regulations throughout the United States, reviewed the studies relied on therein, and consulted the NAIC.

The moratorium on filings containing credit scoring is hereby lifted. We have developed an internal procedure, which can be modified as the need arises, for the review of filings which rely, in any way, upon the use of credit reports or credit scoring. All such filings are expected to meet the following guidelines:

1. The insurer, rating organization or model provider has tested, and certified, and further retains documentary evidence available to the Department upon request, that such data is not used in an unfairly discriminatory manner based upon age, race, socioeconomic class, occupation, nationality, religion, sex, or handicap, either directly or indirectly.
2. The insurer, rating organization or model provider has tested, and certified, and further retains documentary evidence available to the Department upon request, that the algorithm is an accurate and statistically credible predictor of loss.

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<sup>1</sup>No restrictions are intended for commercial lines.

3. That the insurer, rating organization or model provider maintains and uses, without exception, random testing procedures for auditing the accuracy of an insurance scored assignment. In the event an inaccuracy is discovered, affected scores will be scores re-run and the insurer will re-evaluate those risks based on the corrected score, refunding any difference in premium overpayments.
4. The Commissioner may request that the model developer provide the actual credit scoring algorithm in use by the insurer together with all statistical data used to develop the algorithm. The commissioner recognizes that such information may be proprietary trade secret and, if so designated by the insurer or model developer, the same shall be withheld from public disclosure, provided that the insurer or model developer files the same separately and clearly identifies the material as such.
5. Implementation of the use of credit reports or credit scoring for the first time will not have any overall rate impact. Any change which results in an overall rate change will be accompanied by a rate change request.
6. Credit scoring shall not be the sole basis for the acceptance or declination of a request for personal lines automobile and homeowners insurance.
7. In the event an insurer is unable to obtain sufficient information to produce an accurate credit score, the insurer must exclude the use of credit as a factor and rely on traditional underwriting criteria.
8. The methodology and logistics in obtaining the credit report are not in violation of the Fair Credit Reporting Act.
9. The insurer consistently uses the same source of credit reports and credit scores, as to all insureds, and will not change said source more than once per year.
10. The insurer consistently uses the same credit score model and methodology and will not change said model or methodology more than once per year. Any change must receive prior approval.
11. The insurer discloses use of credit reports and credit scores on its application and, as to any adverse impact, specifically notifies the insured or applicant as to such impact and provides the insured the name and address of the source from which the information was obtained.
12. The credit score model does not consider multiple inquiries from the insurance, mortgage lending, or auto finance industries within a 30 day period, i.e., shopping for insurance or credit rates does not adversely affect the credit score.

13. If the insurance company uses credit information for tiering or rating, the insurance company shall recheck the credit scores of policyholders annually prior to renewal to determine if the policyholder's credit score has changed. The insurance company is not required to recheck the credit scores of policyholders that are already receiving the best rate.
14. Insurers using credit scores for tiered rating will be expected to actuarially justify the tier rating factors to be used. A filing must be made when there is a change in the rating factors for the tiers, as this effectively constitutes a pricing revision.
15. The insurer, upon receipt of a complaint as to the accuracy of any information relied upon, will request investigation, in writing, by the entity which supplied the same.
16. The insurer does not use credit information to underwrite or rate a risk where such information has been identified on the records of the credit bureau as in dispute by the policyholder or applicant. (A) If a credit bureau determines that the credit report or credit score of an applicant is incorrect due to inaccurate or incomplete information contained in the credit report and if the insurer receives notice of this determination from the applicant or the credit bureau, the insurer shall, within 30 days after receiving the notice: (i) re-underwrite the applicant; (ii) re-rate the applicant; and (iii) adjust the premium as indicated in subsection (B). (B) If it is determined by the re-underwriting or re-rating in accordance with subsection (2) above that the applicant has overpaid the premium, the insurer shall refund to the applicant the amount of the overpayment of premium. Such payment shall be calculated back to the shorter of: (i) the last 12 months of coverage; or (ii) the actual period of coverage.
17. Any carrier with an approved model already in use must either write to the Commission indicating that the same is in full compliance with all of the foregoing provisions or refile the same.

If you have any questions regarding the contents of this Informational Letter, you may contact Mia Rowe, Director of Rates and Forms Division at (304) 558-2094.

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INSURANCE COMMISSIONER